JANUARY/FEBRUARY 2004

CALIFORNIA FRANCHISE TAX BOARD

Tax News

April 15th last day to amend abusive tax shelter returns

The Franchise Tax Board Voluntary Compliance Initiative allows a limited time for taxpayers, who used abusive tax shelters and transactions to underreport their income or tax liability, to amend their returns and obtain a waiver of various penalties. The Voluntary Compliance Initiative applies to the 2002 tax year and prior.

The Voluntary Compliance Initiative period is now open and closes April 15, 2004. In December we began sending letters to taxpayers alerting them to this opportunity. You can find detailed information about the Voluntary Compliance Initiative VCI at **www.ftb.ca.gov.** Here is a summary of information you will find.

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FTB launches new secure electronic communications

Are you involved in an ongoing audit or legal case and wish you could communicate with us electronically in order to speed things up? Now you can. Our Secure Electronic Communications system allows us to securely exchange confidential, case-related documents with you about ongoing cases without compromising your clients' privacy. It is easy to use, requires no special hardware or software, and is available 24 hours a day, seven days a week.

All you need is a browser that supports 128-bit encryption and the latest virus protection software. To get started, simply tell your current Franchise Tax Board Audit or Legal staff contact that you want to use our Secure Electronic Communications system. We will initiate the registration process to create a Secure Electronic Communication mailbox for you. You control your mailbox using your own user identification and password. Upon completion of the registration process, we will send you an email confirmation along with information about how to use the system.

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Find us online

@ www.ftb.ca.gov

Tax News

Volume 04-1 January/February 2004

Tax News is a bimonthly publication of the Communications Services Bureau of the California Franchise Tax Board. Our primary objective is to provide information to income tax practitioners about state income tax laws, regulations, policies and procedures.

To receive a one-year subscription to the print version of Tax News, send a $12 check or money order (no cash, please) payable to the Franchise Tax Board, to:

Tax News
PO Box 2708
Rancho Cordova CA 95741-2708.

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Tax Practitioner Services
Our Tax Practitioner Support Unit is available from 8 a.m. to 5 p.m., Monday through Friday. Our telephone number is (916) 845-7057. You can send us a fax 24 hours a day, seven days a week. Our fax number is (916) 845-6377.

Hearing Impaired
TDD (800) 822-6268

FTB issues new withholding forms for real estate sales

As a result of your feedback and suggestions we have developed new withholding forms for real estate sales closing in 2004 and made clarifying changes to some of the existing ones. The new forms are available on our Website, however, continue to use the 2003 forms for real estate sales closing in 2003.

New forms

The new forms will replace Form 597, *Real Estate Withholding Tax Statement,* which will change the remittance process from a transaction-by-transaction basis to one remittance for all withholding during the month. The new forms include:

1) Form 593, *Real Estate Withholding Remittance Statement.* Use this form:

- To report and remit the **total** real estate withholding for the month.
- To report and remit any interest assessed on late withholding payments for 2004.
- As the transmittal form for Form 593-B, *Real Estate Withholding Tax Statement*.

2) Form 593-B, *Real Estate Withholding Tax Statement*. Use this form to report the real estate withholding for **each** seller. Form 593-B is similar to Form 597; however, we added new fields to aid in the computation of the withholding amount. Also, the instructions are expanded to include instructions on regular sales, exchanges, and installment sales.

This new remittance process allows escrow and exchange companies to generally send one (1) payment after the close of the month with one (1) Form 593 and with all the Form 593-Bs for the month attached. Before using these new forms, please be sure to read the instructions carefully.

Significant form updates

On Form 593-C, *Real Estate Withholding Certificate for Individual Sellers*, we deleted language pertaining to exemptions for sales of $100,000 or less. Such sales are automatically exempt from withholding, and the law does not require certification for the exemption.

On Form 593-W, *Real Estate Withholding Exemption Certificate and Waiver Request for Non-Individual Sellers*, we deleted language pertaining to exemptions for sales of $100,000 or less, and sales by a bank or a bank acting as a fiduciary for a trust. Such sales are automatically exempt from withholding, and the law does not require certification for the exemption.

We simplified Form 593-L, Real Estate Withholding-Computation of Gain or Loss by making some of the entries optional (See Form 593-C/Form 593-L Booklet).

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Electronic waiver application

The e-waiver application service is no longer available. The e-waiver application was intended to enable both individual and non-individual sellers to submit electronic waiver requests. With the implementation of AB 2065 in January 2003, individuals are no longer eligible to apply for a waiver. As a result of a very limited customer base and low usage of the electronic application, it is no longer feasible to continue this service. Non-individual sellers may still get Form 593-W, *Real Estate Withholding Exemption Certificate and Waiver Request for Non-Individual Sellers* from our Website **www.ftb.ca.gov** and fax or mail waiver requests to the FTB. Our fax number is (916) 845-9512.

Contact us

Visit our Website at www.ftb.ca.gov to find out the status of our new forms and publications. You may also call our Withholding Services and Compliance Section for more information.

Toll-free from the United States:
(888) 792-4900

Withholding Services and Compliance Section Tax Practitioner Hot Line:
(916) 845-7315

Local or international: **(916) 845-4900**

Fax your forms: **(800) 998-3676**

Note: When calling our toll-free number, please listen carefully as our menu and information will change effective **January 2, 2004.**

Ask the Advocate

Debbie Newcomb
Taxpayer Advocate

Q: My client recently applied for and received innocent spouse relief from the Internal Revenue Service. What are your criteria for granting similar relief at the state level?

A: The criteria for granting innocent spouse relief changed with the recent enactment of SB 285 (Speier) Stats. 2003, Chapt. 370. Individuals who were granted relief under Internal Revenue Code Section 6015 can receive relief from us if all of the following conditions are met:

- The individual requests relief from us under the state innocent spouse provisions.
- The facts and circumstances that apply to the understatement of tax and liabilities for which the relief is requested are the same.
- The spouse requesting relief provides us with a copy of the federal determination and any other supporting documentation that we request.

These relief provisions do not apply if any one of the following apply:

- A court has revised the individual's tax liabilities in a marriage dissolution proceeding.
- Within 30 days of notification from us, the nonrequesting spouse provides information to us indicating that relief should not be granted based on one or more of the following:

1. The facts and circumstances for state relief are different than those for federal relief.
2. No federal relief has been granted or the federal determination granting relief has been modified, altered, withdrawn, or canceled.
3. The nonrequesting spouse did not have the opportunity to participate in the federal administrative or judicial proceeding that resulted in the relief.

These current provisions are effective January 1, 2004 through December 31, 2008. If you believe your clients are eligible for relief, submit a request, on their behalf, using Form FTB 705, *Request for Innocent Spouse Relief Form and Brochure***.**

Make sure it contains:
Taxpayer's name
Taxpayer's social security number
The tax year(s) in question
A statement explaining why you believe they qualify for relief as an innocent spouse
A copy of the court order (if divorced or separated)
A copy of any correspondence from the IRS including the federal determination
Your power of attorney

Send the request to:

Franchise Tax Board
Innocent Spouse Program - Mail Stop H-080
P O Box 2952
Sacramento CA 95812-2952

All questions regarding innocent spouse relief should be referred to our Innocent Spouse Program. You can contact them by telephone at (916) 845-7072.

You can review SB 285 in its entirety by going to the *Official California Legislative Information Website*, **www.leginfo.ca.gov**.

Voluntary Compliance Initiative

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If any of your clients have invested in a potentially abusive tax shelter or transaction, participating in the Voluntary Compliance Initiative can save them a significant amount of money in penalties and eliminate the potential for criminal prosecution.

There are two ways to participate: Option 1 or Option 2. Under either choice, your clients must amend their California income or franchise tax return to eliminate the abusive tax shelter or transaction, and pay tax and interest due by April 15, 2004. If your clients choose Option 1, we waive all penalties applicable to the abusive tax shelter or transaction. Also, under this option, the abusive tax shelter or transaction issue is final and your clients cannot file a claim for refund on this issue.

If your clients choose Option 2, we waive all penalties applicable to the abusive tax shelter or transaction, except the accuracy-related penalty. Under this option, your clients maintain their right to file a subsequent claim for refund on the abusive tax shelter or transaction issue.

What penalties can your clients avoid if they participate in the Voluntary Compliance Initiative?

Under the new law, abusive tax shelters and transaction penalties apply to all open tax years. What this means is that the penalties have a retroactive effect and apply to any tax year where a statute of limitations for issuing a deficiency notice is open. Therefore, at the time your client invested in a potentially abusive tax shelter or transaction, the applicable penalties were fewer, but now, the applicable penalties are increased. Abusive tax shelter and transaction penalties now range from 20 percent to 75 percent of the underpayment of tax attributed to the abusive tax shelter or transaction, plus an added penalty equal to 100 percent of the interest charged on any deficiency assessment.

Here's a chart outlining the potential savings your client could achieve by participating in the Voluntary Compliance Initiative and avoiding penalties:

	Total Due During VCI	Total Due After VCI	You Save
Tax	$100,000	$100,000	-0-
Interest Penalty Noneconomic Substance Transaction Penalty Fraud Penalty	-0-	$30,585 $40,000 $75,000	$30,585 $40,000 $75,000
Interest	$30,585	$30,585	-0-
Total	$130,585	$276,170	$145,585

Detailed information regarding the penalties is available on our Website, **www.ftb.ca.gov.**

What if the Internal Revenue Service or the Franchise Tax Board has not contacted your clients for audit of an abusive tax shelter or transaction and they are unsure about participating in the Voluntary Compliance Initiative?

Your clients should still consider participating to take advantage of this one-time opportunity. Just because your clients have not been contacted for audit yet does not necessarily mean the Franchise Tax Board or the Internal Revenue Service have not received information regarding their potential investment in an abusive tax shelter or transaction.

On December 3, 2003, we mailed out contact letters to various taxpayers who generally are perceived as potential abusive tax shelter or transaction investors. If your client received a letter and does not participate in the Voluntary Compliance Initiative, your client cannot later avoid the abusive tax shelter and transaction penalties by filing an amended return after April 15, 2004.

We may also obtain your clients name from the following sources:

- We exchange information, including the names of potential investors in abusive tax shelters or transactions, with the Internal Revenue Service. Due to increased federal compliance activity, the Internal Revenue Service has numerous names of investors in potentially abusive tax shelters or transactions from various promoters and marketers.

- Tax shelter organizers are now required to provide to us by April 30, 2004, a list of investors that invested in listed transactions beginning as early as February 28, 2000.

- Organizers of tax shelters must now register tax shelters organized in California, doing business in California, deriving income from sources in California, or having California investors.

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Military Family Tax Relief Act of 2003

What does it mean for Californians?

On November 11, 2003, President Bush signed the Military Family Tax Relief Act of 2003 into law. The new act has several tax breaks for military personnel including a provision that applies the various extensions (for filing returns and paying taxes) granted to combat zone participants to those serving in contingency operations.

(A contingency operation is a military operation designated by the Secretary of Defense as an operation in which members of the Armed Forces are or may become involved in military actions, operations, or hostilities against an enemy of the United States or against an opposing military force, or results in the call or order to (or retention on) active duty of members of the uniformed services during a war or national emergency declared by the President or Congress.)

California has not yet conformed to the Military Family Tax Relief Act of 2003. Consequently your affected military clients who are participating in contingency operations *do not* have the same extensions for filing their California returns or paying their California taxes as those clients serving in a combat zone.

The act contains other tax breaks for military personnel. There are provisions for:

1. Increased tax-exempt death gratuities.
2. Revisions to rules regarding the exclusion of capital gains from the sale of a principal residence.
3. Above the line deductions for overnight travel expenses of National Guard and Reserve members.
4. Changing the tax treatment of the Department of Defense Homeowners Assistance Program.
5. Clarification of exclusion of dependent care assistance programs benefits.
6. Clarification regarding exemption from penalties for certain distributions from qualified tuition programs for military academy attendees.
7. Extension of certain tax relief provisions to astronauts dying in the line of duty.
8. Expansion of membership for veterans' organizations.
9. Suspension of exempt status and deductions for contributions to terrorist organizations.

If you have clients who are affected by these provisions, you will have to make adjustments to Schedule CA when preparing their California returns. Here is a summary of the key provisions:

Military death benefits

The Military Family Tax Relief Act of 2003 raises the amount of the military death gratuity benefit paid to survivors of deceased Armed Forces members to $12,000 *and* it raises the amount of the benefit that is excludible from gross income to $12,000.

The increases are effective September 11, 2001, and apply to deaths occurring on or after that date.

CALIFORNIA

In California your affected clients can only exclude $3,000 of the $12,000 death gratuity from their gross income because California currently conforms to the $3,000 exclusion amounts established in 1986 under Internal Revenue Code Section 134.

Exclusion of capital gains realized from the sale of principal residence

Under Internal Revenue Code Section 121, individual taxpayers may exclude up to $250,000 ($500,000 for married filing jointly) of capital gain realized from the sale or exchange of a principal residence. To be eligible for the exclusion, taxpayers must have owned the residence and used it as their principal residence for at least two of the five years ending on the date of the sale or exchange. Taxpayers who fail to meet the ownership and use requirements for the exclusion due to a change of place of employment, health, or unforeseen circumstances may qualify for a reduced exclusion.

Under the Military Family Tax Relief Act of 2003, taxpayers on qualified official extended duty in the United States Armed Services or the Foreign Services may elect to suspend, for up to 10 years, the five-year test period for ownership and use of a principal residence during certain absences caused by their service in the uniformed services or the Foreign Services.

If taxpayers make this election, the five-year period ending on the date of the sale or exchange of their principal residence would not include any period, up to 10 years, during which they or their spouses were on qualified official extended duty as a member of the United States Armed Services or the Foreign Services.

This election, which is an option for taxpayers, applies to only one property at a time and is retroactive for home sales after May 6, 1997. Although taxpayers normally have only three years to file an amended return, qualifying taxpayers who sold a residence before 2001 have until November 10, 2004, to amend their returns for this purpose.

CALIFORNIA

The five-year test period for ownership and use of a principal residence still applies in California.

Above the line deduction for overnight travel expenses of National Guard and Reserve members

Under the Military Family Tax Relief Act of 2003, National Guard and Reserve members who stay overnight more than 100 miles away from home while in service (e.g., for a drill or meeting) may deduct unreimbursed travel expenses (transportation, meals, and lodging) as an

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Tax Relief for military families

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above the line deduction. The deduction is limited to the rates for such expenses authorized for federal employees, including per diem in lieu of subsistence. The new law applies to expenses incurred in tax years starting after December 31, 2002.

Before the new law, such overnight expenses by these service members were deductible only by those taxpayers who itemized their deductions and were also subject to the two percent of adjusted gross income limitation for miscellaneous deductions on Schedule A.

CALIFORNIA

California has not conformed to this provision. For California tax purposes, these itemized deductions remain deductible only to the extent they cumulatively exceed two percent of the taxpayer's federal adjusted gross income.

Department of Defense Homeowners Assistance Program

The Department of Defense Homeowners Assistance Program makes payments to certain employees and members of the Armed Forces to offset diminution in housing values due to military base realignment or closure. Under the Military Family Tax Relief Act of 2003 those payments are now excludable from gross income. The provision is effective for payments made after November 11, 2003.

Prior to the act, these payments were taxable as compensation for services. In addition, when the government purchased a residence under the homeowners assistance program, the excess of the selling price over the fair market value of the residence was includable in gross income as compensation for services. For civilian employees these amounts were also considered wages subject to federal employment taxes (FICA taxes for OASDI and Medicare).

CALIFORNIA

California does not yet conformed to the provision.

Dependent care assistance programs

The Military Family Tax Relief Act of 2003 clarifies that for uniformed members, qualified dependent care assistance is a qualified military benefit and therefore excludable from gross income. The provision is effective for taxable years beginning after December 31, 2002. The 2003 Act also provides no inference with respect to the tax treatment of these amounts for prior years.

The act amends Internal Revenue Code Section 134, which allows uniform service members to exclude qualified military benefits from gross income. This provision is effective for taxable years beginning after December 31, 2002.

CALIFORNIA

California has not yet conformed to the clarifications in this provision.

Distributions from qualified tuition programs or education savings accounts for service academy appointments

Generally, taxable withdrawals (withdrawals not used for educational expenses) from a qualified tuition program or Coverdell Education Savings Account are subject to a 10 percent additional tax. However, the additional tax does not apply to withdrawals made because the recipient received a qualified scholarship excludable from gross income.

Before the Military Family Tax Relief Act of 2003, appointments to service academies (United States Military, Naval, Air Force, Coast Guard, or Merchant Marines academies) were not explicitly identified as scholarship. As a result, the 10 percent additional tax might have been construed to be applicable. This provision clarifies that service academy attendance is not subject to the 10 percent additional tax; to the extent the payments do not exceed the costs of advanced education. The new law is effective for tax years after 2002.

CALIFORNIA

California does not conform to this provision.

Tax relief for astronauts dying in the line of duty

The Military Family Tax Relief Act of 2003 extends relief granted by the Victims of Terrorism Act of 2001 to astronauts who lose their lives in the line of duty (it exempts all income in certain situations). The law is effective for deaths occurring after December 31, 2002. The death benefit exclusion applies to amounts paid after December 31, 2002. The estate tax reduction applies to estates of decedents dying after December 31, 2002.

CALIFORNIA

California does not conform to this provision.

Expansion of membership for veterans' organizations

Under Internal Revenue Code Section 501(c)(19), qualified veterans' organizations are treated as tax-exempt organizations to which deductible contributions can be made. To become qualified, 75 percent of their members must be current or former active military personnel; and, substantially all of the members must be either current or former active duty personnel or widow/widowers of former active duty military personnel.

The Military Family Tax Relief Act of 2003 would permit lineal descendents and ancestors of current or former members of the United Stares Armed Forces or cadets to qualify for the "substantially all" test, for tax years beginning after November 11, 2003.

CALIFORNIA

California has not conformed to this provision.

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Take the hassle out of filing head of household

During this filing season many of your clients will inquire about claiming the head of household filing status. Although many taxpayers think of themselves as the head of their household, they may not qualify for the head of household filing status under federal and state tax laws. To qualify for this filing status the taxpayer must meet all of the following general requirements:

- The taxpayer was unmarried or considered unmarried on the last day of the tax year.
- The taxpayer paid more than one-half the costs of keeping up the home.
- The home was the main home for the taxpayer and a qualifying person who lived with the taxpayer for more than half the year.
- The taxpayer was not a nonresident alien at any time during the year.

We have a very active head of household audit program. Each year we mail about 200,000 audit letters to taxpayers who claim this filing status. For your clients that file electronically we highly recommend that they file a Form 4803e with their electronic return. By filing a Form 4803e most electronic filers can avoid receiving a head of household audit letter.

There are several reference sources to assist you in determining if your client qualifies for head of household. The 2003 personal income tax booklets for Forms 540/540A and 540 2EZ contain the general rules of qualification for this filing status. For more detailed information see FTB Publication 1540, *California Head of Household*. The 1540 contains the general requirements, a detailed self-test, and a section of definitions, as well as the answers to frequently asked questions. A companion publication, FTB Publication 1540SPAN provides the same information in Spanish.

You can also access the same comprehensive information on our Website at **www.ftb.ca.gov.** By reviewing these sources and using the self-test to determine eligibility, most taxpayers can avoid a later denial of their head of household filing status.

Military cont.

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Suspension of tax exempt status of terrorist organizations

The new law suspends the tax exempt status (under Internal Revenue Code 501(a)) of an organization for any period during which it is designated or identified by United States federal authorities as a terrorist organization or supporter of terrorism. It also makes such organizations ineligible to apply for tax exempt status under Internal Revenue Code Section 501(a). Taxpayers will not be able to deduct their contributions to these organizations during periods of suspension.

CALIFORNIA

California has not conformed to the new law.

For more information about the Military Family Tax Relief Act of 2003, go to the Armed Forces Tax Benefits Webpage located on the Internal Revenue Service's Website, **www.irs.gov.**

Servicemembers Civil Relief Act

The Servicemembers Civil Relief Act (H.R. 100), which President Bush signed into law on December 19, 2003, provides nontax civil relief and various forms of federal and state tax relief to military servicemembers.

Most notable is a provision whereby nonresident military members no longer have to include their military income when calculating the tax on other income subject to California income tax.

Currently, the military pay of nonresident service members stationed in California is not taxable to California. However, nonresident service members who also earn other (taxable) California source income must include their military pay for various purposes when calculating their California income tax.

California does not conform to the provisions of H.R. 100. We will announce any changes to existing state law on our Website, www.ftb.ca.gov, and in ***Tax News***.

Do your part...

Reducing paper consumption is one the most effective ways to minimize waste. When taxpayers send us unnecessary attachments, particularly federal income tax returns, our cost to process their return increases. In 2002 alone, 1.8 million taxpayers unnecessarily attached their federal return to their California income tax return. Many attached a Form 1040 return to their Form 540 2EZ!

Processing tax returns containing unnecessary federal tax returns is a costly procedure, and so is processing those returns that lack the required federal tax return attached.

We received 600,000 such returns in 2002 and in many instances we had to contact taxpayers and request that they send us their federal income tax return.

Both problems are significant because of their extremely high volumes. Most of you already instruct your clients on what to send us when they file.

Please also explain to them how important it is to follow your instructions when they file, and to attach only what we require from them.

As a general reminder, here are some guidelines for when to attach federal returns to California personal income tax returns (for filing purposes):

When filing:	Attach Federal Return?
540 2 EZ	No
540 with Schedules A and B only	No
540 NR (Short)	No
540A	No
540 with any other schedules other than A and B	Yes
540 NR (Long)	Yes

If special circumstances exist and you're not sure of what documentation your client needs to provide us, please check the filing instructions on the tax form. You can find all our forms and related instructions on our Website, **www.ftb.ca.gov.**

For a fail-proof way to ensure your clients are filing their returns properly, use e-file.

...File smart

Voluntary Compliance Initiative

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All of these activities increase the likelihood we will contact your client and are incentives for them to participate in the Voluntary Compliance Initiative.

What if the Internal Revenue Service or the Franchise Tax Board has already contacted your clients for an audit of the abusive tax shelter or transaction?

Your clients should still consider participating to take advantage of this one time opportunity. Your clients can save a significant amount of money in penalties and eliminate potential criminal prosecution. Your clients have the choice to participate under either Option 1 or Option 2. Generally, if your client is under audit by the Internal Revenue Service, we will follow the final federal determination.

For more information about the Voluntary Compliance Initiative:
- Visit our VCI Website at www.ftb.ca.gov.
- Call our VCI hotline at (916) 845-3232, Monday – Friday, 9:00 a.m. to 4:00 p.m.

FTB has new board member

Donna Arduin is the new Director of the Department of Finance and the newest member of the three-member California Franchise Tax Board.

The other members include Steve Westly, State Controller and Chair, California Franchise Tax Board, and Carole Migden, Chair, State Board of Equalization.

Three-member board approves NetFile program

The Franchise Tax Board has approved the state's NetFile program, a free, direct, Internet tax-filing alternative for the upcoming 2004 tax filing season.

At its scheduled meeting, the three-member Franchise Tax Board approved a motion by State Controller and FTB Chair Steve Westly to offer NetFile with a two-year moratorium on future enhancements in exchange for the tax software industry's continued free e-file offerings in California.

In what he called a "common-sense compromise" with the tax software industry, Controller Westly said our NetFile program "saves the state money and makes it as easy as possible for Californians to file their taxes online at the lowest possible cost." More than six million of the state's 14 million tax returns can be e-filed for free using NetFile.

The qualifications include all filing statuses with income up to $271,000. NetFile allows many income sources beyond W-2 wages such as interest, dividends, alimony, and IRA distributions.

Join our e-file program today

As you are probably aware, e-file is now mandatory for returns prepared by certain tax practitioners. All of your client's returns are required to be e-filed if more than 100 California individual income tax returns prepared by you were filed for the 2002 tax year and you prepare one or more current year returns using tax preparation software.

If you still need to enroll in the California e-file program, it's not too late. Go to the e-file enrollment page of our Website at **www.ftb.ca.gov.** We accept enrollment forms year-round.

Need more information? Our Website, **www.ftb.ca.gov,** is your best source for information about California's mandatory e-file. We are constantly updating the Frequently Asked Questions Webpage with answers to questions we receive.

If you still have a question after reviewing our FAQs, please be sure to contact our e-Programs Customer Service Unit at 916-845-0353, or email us at e-file@ftb.ca.gov.

FTB Information Directory available February

The 2004 Franchise Tax Board Information Directory will be available on our Website in February. The directory contains telephone numbers, mailing addresses, and Webpage addresses for the programs within our organization that you use most.

To get your copy online, go to our new Tax Professional Gateway located on our Website, **www.ftb.ca.gov.** Click on the Tax Professionals Gateway. You'll find the directory under Helpful Publications. Subscribers to the print version of *Tax News* will also receive a directory inside their March/April 2004 issue of *Tax News.*

Do your part...

Avoid these common return preparation errors

Avoid these common errors when preparing returns and your clients returns will sail through our processing procedures.

Estimate payments

When the estimate payment total taxpayers claim on their return is different from the total we receive, we delay processing while we issue a notice about the discrepancy to the taxpayer. You can keep track of your clients' estimate payment activity by using the Check Account Balance feature on our Website, **www.ftb.ca.gov.** This application lets you view a record of the estimate payments we have received from your clients before you complete this step of the tax return.

You will need your clients' social security number and their customer service number in order to access their account information. You can obtain their customer service number from us if you can provide us with the appropriate Franchise Tax Board Power of Attorney, Form FTB 3520. To learn more about our Customer Service Number Program visit our Customer Service Number Webpage.

When adjusting estimate payment information on a scannable return, make sure you make the correction on both pages of the return. So, if you change the estimate payment total amount in the scan band portion of the return, you must also change the total on Page 2 of the return or we will input the wrong amount.

Exemption credits

Be sure exemptions have been totaled correctly and that the total exemptions have been transferred to the correct line of the return.

Tax liability

Make sure all figures above the tax line have been reported correctly so the correct tax is computed. Use the automated tax table on our Website and make sure you transfer the correct tax amount from the tax table to the tax return.

Excess State Disability Insurance claims

When reporting the amount of excess state disability insurance, make sure you only use the amount provided in the state disability insurance section of the client's form W-2. For clients using the married filing joint filing status, be sure to calculate the primary taxpayer's and spouse's excess state disability insurance separately.

Do not include state disability insurance amounts from out-of-state sources in the total.

...File smart

For faster results, call practitioner hotline; don't send letters with client's return

The best way to receive specific answers to your clients' questions regarding their tax return or other issues requiring timely action is to contact our Franchise Tax Board Tax Practitioner Hotline at (916) 845-7057.

Don't attach a letter to your client's tax return. Often these letters are not answered until they have traveled through our entire return processing system and are ultimately rerouted to our Taxpayer Service Center for reply. This can take many weeks and sometimes the letters are inadvertently filed without a reply. The only exception is if the letter provides an explanation for some information contained in the return. In most cases, our customer service representatives can answer your questions immediately when you call our hotline. And, for those situations when you need to furnish us with additional information, you can send it to us via fax.

If you can't call our hotline, send us your question via fax. Our average turnaround time for responding to fax queries is seven business days as opposed to the 21-day turnaround time for mail sent via the postal service. Our Tax Practitioner Hotline is open from 8 a.m. to 5 p.m., Monday through Friday. Send us a fax 24 hours a day, seven days a week, at (916) 845-6377.

Do your part...

Here's how to properly assemble scannable tax returns

Follow these steps when assembling your clients' *scannable* Forms 540 and 540A tax returns. You will help us work more efficiently and speed up our processing of the tax returns.

1. If your clients have Forms W-2, use our new Schedule W, California W-2 Attachment, to help us keep track of them. The Schedule W works with our scannable Forms 540 and 540A. To use it, attach paper copies of the Form(s) W-2s, W-2Gs, 1099, 592-B, 594, and 597 to the Schedule W instead of attaching them to the face of the tax return.
2. Leave the first page of the return loose. Do not attach anything to it.
3. Place any payments inside the envelope. Do not attach payments to the return.
4. Staple together the rest of the return; page 2, followed by Schedule W, then all other schedules and attachments in the usual order.

...File smart

Tax Practitioner Services & Holiday Calendar

Tax Practitioner Hotline
Telephone . . . . (916) 845-7057
Fax . . . . (916) 845-6377

Personal Income Tax Collection
Fax . . . . (916) 845-0494

Business Entities Collection
Fax . . . . (916) 845-0145

FTB e-Programs Customer Service
Telephone . . . . (916) 845-0353
Fax. . . . . (916) 845-0287

The Tax Practitioner Hotline is open Monday through Friday, 8 a.m. to 5 p.m. The Hotline is not open on weekends and state holidays.

2004 Official California State Holidays

Thursday, January 1, 2004
New Year’s Day

Monday, January 19, 2004
Martin Luther King Jr. Day

Thursday, February 12, 2004
Lincoln’s Birthday

Monday, February 16, 2004
Washington’s Birthday (observed)

Wednesday, March 31, 2004
Cesar Chavez Day

Monday, May 31, 2004
Memorial Day

Monday, July 5, 2004
Independence Day (observed)

Monday, September 6, 2004
Labor Day

Monday, October 11, 2004
Columbus Day

Thursday, November 11, 2004
Veteran’s Day

Thursday, November 25, 2004
Thanksgiving Day

Friday, November 26, 2004
Day after Thanksgiving

Saturday, December 25, 2004
Christmas Day

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